

## INFORMATION AND COMMUNICATIONS TECHNOLOGIES

# THE CURRENT STATE AND DEVELOPMENT PROSPECTS OF MOBILE AND ELECTRONIC PAYMENTS IN BULGARIA

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**Abstract:** Present – day mobile and electronic payment systems, like all innovative solutions, do their best to meet the requirements of the business by being in line with its technological capacity. Online payments have a number of benefits not only for the banks and institutions that implement them but also for the clients and sales companies that use them to do their business.

The purpose of the article is to outline the features of mobile and electronic payment systems that permit them to be one of the most promising and rapidly developing means of payment in Bulgaria. The study will also analyse their strengths and weaknesses and will clearly define the opportunities and threats of their application. This will be accomplished by taking into account the current political and social conditions in Bulgaria.

**Key words:** mobile payments, electronic payments, SWOT analysis, PESTEL analysis.

**JEL:** D14, D80, G21, L81, L86.

## Introduction

One of the characteristics of modern life is the ubiquitous presence of the Internet, which is the main medium for establishing contacts and engaging in business activities in all sectors of public life. The dramatic development of the electronic and mobile business has led to the appearance of electronic and mobile payments. With the help of the

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information technologies, this means of payment has changed the way clients access the different bank services and products. The current trend suggests that people prefer shopping or using different services online rather than visiting offices or retail outlets. The conveniences that are offered to customers are numerous – making payments from home or the office, easy tracking of transactions and obtaining information about accepted payments, easy checking the available money in bank accounts or debit cards, eliminating the risk of carrying cash, etc. Online payments guarantee that the businesses get direct payments in their bank accounts. In addition, companies can easily track transactions and the balance of their bank accounts. In this way, by using online payments e-tailors guarantee themselves one more advantage in addition to the traditional benefits of electronic trade (i.e. providing access to all interested parties to the offered products and services as well as increasing the number of customers and sales).

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**Mobile payments** are payment services that are operated under a particular financial regulation and are performed via a mobile device, most often a smartphone. They are an alternative to traditional payment methods. Instead of paying in cash or by debit or credit cards, users use their mobile phones to pay for a wide range of products or services<sup>1</sup>. There are several methods for performing a mobile payment: via a text message (SMS), via mobile banking, by making a banknote payment via a mobile device and via a mobile payment platform.

**SMS payments** are suitable for paying small amounts most often for online services. The sum transferred is added to the monthly bill of the mobile operator. In Bulgaria, this method is used mainly by users who want to register for various games, pay VIP subscriptions, obtain access to content, publish ads, or pay for parking places in “green” or “blue” zones, etc.

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<sup>1</sup> <http://mashable.com/category/mobile-payments/>. Last accessed on 17.06.2016.

When using **mobile banking**, customers gain access to their bank accounts through the website of their banks via a mobile device such as a telephone, tablet, etc. Mobile banking is becoming more popular in the country and the number of the banks that offer this service is increasing. In 2015, it was offered by 8 banks and as of 01.07.2016 there were 12. The development of mobile banking is lagging behind that of electronic banking, which is offered by all of the 25 banks working with individual clients in Bulgaria. Mobile applications are developed mainly for the two most popular mobile operating systems, i.e. Android and iOS. There is an upward trend of using mobile banking, which results directly from the increasingly widespread use of mobile devices. A survey conducted by Google<sup>2</sup> shows that 53% of the Bulgarian citizens have a smartphone while 26% of them have a tablet, which encourages banks to offer this service more actively.

**The mobile wallet has been offered officially in Bulgaria** since 1 September 2010 via a technology developed by the “System for Electronic Payments Bulgaria/SEP Bulgaria” (SEP Bulgaria). Clients have to visit the office of a mobile operator (at present the service is offered by the three mobile operators) to obtain a new SIM card with an installed “Mobile Wallet” application. An electronic signature is installed and clients create their own PIN code in order to confirm transactions. Clients can add up to 10 accounts in the “Mobile Wallet” application. A special chip also permits the payment of products and services at the point of sale in retail outlets equipped with Near Field Communication (NFC) terminals.

Clients can also use the “Electronic Wallet” service to make payments, which do not exceed 20 BGN, in retail outlets without confirming the transaction with a PIN code<sup>3</sup>.

**The contactless payments performed via mobile devices are** mobile payments based on the Radio-Frequency Identification (RFID) technology, mainly with NFC. To make such payments it is necessary to

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<sup>2</sup> <https://www.consumerbarometer.com>. Last accessed on 17.06.2016.

<sup>3</sup> Telefonat e moyat portfeil. <http://www.capital.bg>. Last accessed on 25.06.2016.

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have a mobile phone, which supports the NFC protocol to make the transaction, and a terminal device to receive the signal<sup>4</sup>.

According to Juniper Research surveys, the number of contactless mobile payments will continue to increase dramatically. It is expected that in 2017 the amount of money paid in this way will exceed 180 billion US dollars, which is 7 times more than the amounts for 2012. Forecasts show that by 2017 more than one quarter of the mobile users in the USA and Western Europe will pay for purchased products via NFC<sup>5</sup>.

A number of new services, **based on mobile payments**, have gained popularity over the last few years and are becoming more widely spread in Bulgaria. They are as follows:

- **Mobb**. This is a **platform for reliable and secure mobile payments** operated by "BORIKA – BANKSERVICE" AD. Currently 9 banks participate in Mobb. They are "D Commerce Bank" AD, "Investbank" AD, "International Asset Bank" AD, "Municipal Bank" AD, "CIBank", "TBI Bank", "Tokuda Bank" AD, "Central Cooperative Bank" and "Ziraat Bank Bulgaria". This service offers cardholders the ability to register multiple debit and credit cards issued by the partner banks from the Mobb platform. Products can be purchased in shops equipped with software upgraded POS terminals or directly on websites, which permit clients to transfer money to bank accounts, to pay utility and other bills, to check available money in bank accounts and to obtain information about previous transactions<sup>6</sup>.

- **Cellum Pay**. This is a mobile application that can be uploaded to every smartphone operating with Android, iOS or Windows Phone operating system. The service involves payments with mobile phones by upgrading the card payments. It can be used for paying products and services both in the retail outlets and from a distance. To do so, clients must register their bank cards in the application and use them for online shopping, paying bills and shopping in traditional shops.<sup>7</sup>

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<sup>4</sup> [http://pcworld.bg/17611\\_da\\_plashtash\\_ot\\_razstoyanie\\_ot\\_4\\_sm\\_do\\_drugi\\_ya\\_kraj\\_na\\_sveta](http://pcworld.bg/17611_da_plashtash_ot_razstoyanie_ot_4_sm_do_drugi_ya_kraj_na_sveta). Last accessed on 7.07.2016.

<sup>5</sup> <http://www.nfcworld.com/2012/06/06/316093/juniper-nfc-payments-to-exceed-us180bn-in-2017/>. Last accessed on 7.07.2016.

<sup>6</sup> [http://computerworld.bg/44721\\_universalna\\_platforma\\_za\\_mobilni\\_razplash\\_taniya\\_obyavi\\_borika\\_bankserviz](http://computerworld.bg/44721_universalna_platforma_za_mobilni_razplash_taniya_obyavi_borika_bankserviz). Last accessed on 27.09.2015.

<sup>7</sup> <http://web.cellum.bg>. Last accessed on 10.07.2016.

- **Mobio**. This is an SMS system for micropayments. The service is developed particularly for owners of web sites who would like to use SMS payments for the services they provide<sup>8</sup>.

**Online payment systems** are systems that permit the electronic exchange of data that is used by the users of electronic services for making payment orders via electronic payment instruments or other electronic forms of making payment orders.

Many online payment systems have been developed over the last decade. Some of them include WebMoney and Skrill but the most popular and the most widely used ones throughout the world are PayPal, Amazon Payments and Google Wallet.

**PayPal** is one of the first online payment systems. It was established in 1998 but in 2002 it was acquired by eBay<sup>9</sup> and became part of the company, thus becoming the most popular payment system in the world. The PayPal system is an electronic alternative to the traditional payment checks and bank transfers. It is an intermediary and via it, every individual or business organisation with a valid e-mail address can transfer to or receive money from other individuals or business organisations. To do so, the sender must have a valid PayPal account. In addition to the standard payments made via a computer, PayPal users can make payments via the **PayPal Mobile** application for smartphones and tablets. Bulgarian users have had access to PayPal since October 2007.

Another popular online payment system is **Amazon Payments**. It is owned by one of the biggest electronic stores in the world - Amazon.com. Despite being related to Amazon.com, the system permits payments to other contracting parties. Bulgarian users have difficulties using it because the majority of products offered by Amazon cannot be delivered to Bulgaria. This payment system has a low popularity and mainly for this reason the Bulgarian online stores do not offer it as a payment option.

**Google Wallet** is the successor of the online payment system, Google Checkout. It is owned by the technological giant Google. A serious

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<sup>8</sup> <https://mobio.bg>. Last accessed on 10.07.2016.

<sup>9</sup> **Richtel**, M. EBay to Buy PayPal, a Rival in Online Payments. The New York Times, 2002. <http://www.nytimes.com/2002/07/09/business/ebay-to-buy-paypal-a-rival-in-online-payments.html>

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disadvantage of the system is the fact that it can be used only in the USA. This significantly limits its use and prevents it from spreading worldwide<sup>10</sup>.

The electronic payment systems in Bulgaria are BISERA (a bank integrated system for electronic payments), BORIKA (a system servicing payments initiated by bank cards on the territory of the country), RINGS (Real-time Interbank Gross Settlement System), TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system) and ePay.bg

This study deals with systems that are licensed by the Bulgarian National Bank, namely BISERA and BORICA, and the ePay.bg system for electronic payments.

- **BISERA** is a system for making money transfers between bank accounts within Bulgaria. It is operated by Bankservice AD. According to data from the Bulgarian National Bank, the number of transactions carried out via the system for 2015 was 61 668 248 and they amounted to 103 840 971 946.54 BGN.<sup>11</sup>
- **BORICA** is the system operator of a payment system for servicing payments made with bank cards on the territory of the country. The number of payments authorised by BORICA in 2015 was 801 490 800 and they amounted to 9 993 301 223.63 BGN. The number of the payments increased dramatically compared to 2014 (72 618 087) but their total amount was preserved (9 279 454 669.08 BGN). The data clearly shows that an increasingly large number of transactions are carried out via the system but the average amount of one payment is reduced many times<sup>12</sup>.
- **ePay.bg** is the most popular Bulgarian electronic payment system and it is serviced by Ipey AD. The operator registers all business and clients that want to make payments via ePay.bg by using bank cards or other payment means. It approves and guarantees the information and technological realisation of the

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<sup>10</sup> Google Wallet, <https://www.google.com/wallet/faq/>. Last accessed on: 10.07.2016.

<sup>11</sup> bnb.bg. Last accessed on 1.09.2016.

<sup>12</sup> See there.

transactions between the involved parties. According to data from the system, the average monthly amount of all payments for the period March – August 2016 was approximately 23 million BGN while the average number of the payments exceeded 459 thousand. The payments carried out via an ATM amounted to 2.20 million BGN on average monthly and were a result of 44 thousand transactions. Detailed data is presented in Table 1<sup>13</sup>.

*Table 1.*  
*Statistical data about payments carried out via ePay.bg*

month	ePay.bg		ATMs		Total	
	amount (BGN)	number	amount(BGN)	number	amount(BGN)	number
2016-03	26 028 805.78	461 048	2 436 882.54	45 522	28 465 688.32	506 570
2016-04	24 607 278.04	443 391	2 239 894.88	45 592	26 847 172.92	488 983
2016-05	21 719 455.89	451 068	2 254 528.38	45 610	23 973 984.27	496 678
2016-06	21 440 094.04	470 906	2 163 657.99	44 911	23 603 752.03	515 817
2016-07	21 104 648.19	460 356	2 006 532.54	42 812	23 111 180.73	503 168
2016-08	21 835 246.32	472 470	2 069 814.45	40 780	23 905 060.77	513 250
On average monthly	22 789 254.71	459 873	2 195 218.46	44 205	24 984 473.17	504078

Source: [www.epay.bg](http://www.epay.bg) and own calculations

The dynamics of the paid amounts and the number of the payments are presented in Figures 1 and 2.

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<sup>13</sup> ePay.bg

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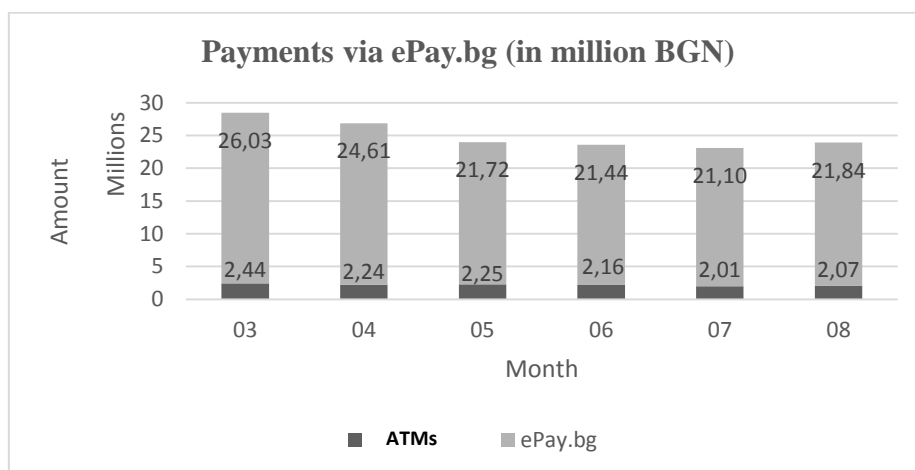


Figure 1. Amount of sums paid via the ePay.bg system

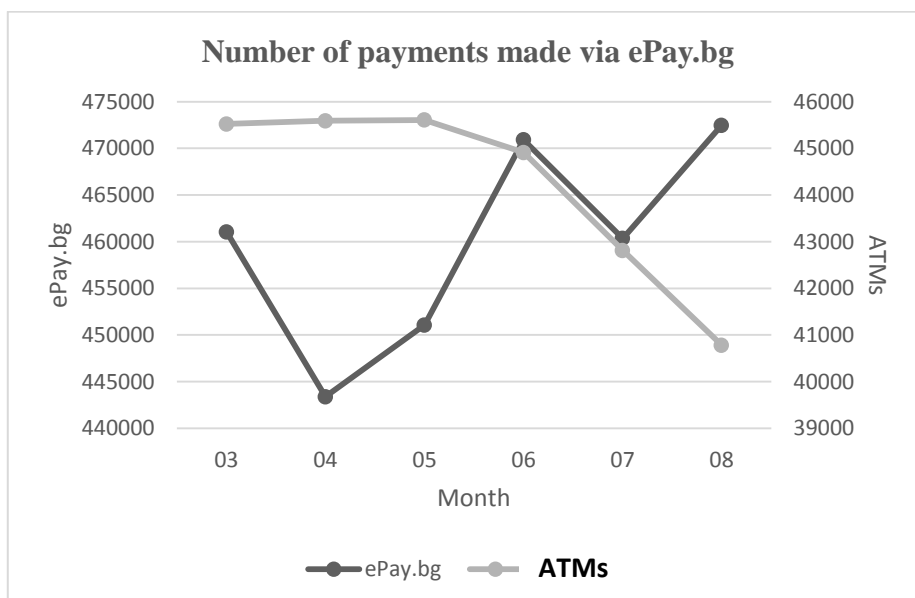


Figure 2. Number of payments made via ePay.bg



Mobile and electronic payments have their advantages and disadvantages, which must be studied and assessed so that these services are popularised in Bulgaria. They, in turn, reflect the development of e-commerce and the general social and political situation in the country. With reference to this, the study proceeds with a SWAT and PESTEL analyses of electronic payments in Bulgaria. These instruments identify the strengths and weaknesses of the researched technologies and clearly reveal the opportunities and threats of their implementation in relation to the current political and social situation in Bulgaria.

The **SWOT analysis** is based on the study of the positive and negative aspects of some of the most popular mobile and electronic payment systems. It also discusses the opportunities and threats of their implementation and use. The analysis includes Google Wallet, PayPal Mobile Wallet, Square Mobile Wallet, Amazon Payments, Mobb, and ePay.bg. With reference to this, the study outlines the following:

**Strengths:**

- speed and convenience for customers – the services are available 24/7 and no need to carry cash;
- the services are accessible at any place – the only requirement is a reliable Internet connection;
- the possibility to manage multiple bank cards at the same time, regardless of the card type;
- the possibility for international transactions;
- increased security achieved through the use of PIN codes, passwords and an electronic signature;
- the possibility for continuous tracking of transactions;
- the attraction of many clients worldwide;
- possibilities for payments between individuals;
- decline in theft of cash;
- remote deletion of user data in cases of theft or misuse;
- payments are carried out via the mediation of the system, which guarantees them;
- providing competitive advantages;
- improving the personal and corporate image;

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- high – technology systems.

### **Weaknesses:**

- creating a user account is required to make payments;
- the payments of products and services are made mainly online;
- customers feel insecure;
- risk of online identity theft;
- clients give up using the service in cases of heavy traffic to the website of the payment system;
- increasing competition;
- high transaction charges.

### **Opportunities:**

- an increase in the market share as a result of servicing a growing number of clients;
- implementation of the payment systems by an increasing number of businesses;
- continuous increase in online shopping and payments;
- possibilities to make payment to the government and the local administrations;
- GPS or IP identification, which allows for the localisation of users and thus offers them products and services near to their location;
- Improved marketing;
- Integration of additional services such as mobile payments, ATM payments and money transfers.

### **Threats:**

- NFC is not a standardized technology with reference to security;
- Constantly increasing competition;
- Unauthorised transfer of money;
- Provisions of financial statements to individuals or companies on the Internet, which makes the data vulnerable;
- Easily cracked passwords;
- Theft of digital certificates;
- Collapse of the mobile network or Internet connection;
- Continuously changing technologies;

- Tough competition in the sector, which can lead to loss of market shares;
- Necessity of securing the non- stop operation of the systems.

The SWOT analysis of mobile and electronic payment systems is shown in the table below.

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• Speed</li><li>• Convenience</li><li>• Accessibility</li><li>• Management of many bank cards</li><li>• International transactions</li><li>• Use of PINs, passwords and electronic signatures</li><li>• Transactions tracking</li><li>• Clients from all over the world</li><li>• Payments between individual clients</li><li>• Remote data deletion</li><li>• Limited cash theft</li><li>• The payment system serves as an intermediary</li><li>• Competitive advantages</li><li>• Improved image</li><li>• High – technology system</li></ul>	<ul style="list-style-type: none"><li>• Creation of user accounts</li><li>• Limited payment – mainly online</li><li>• Clients feel insecure</li><li>• Identity theft</li><li>• Giving up on using the service</li><li>• Increasing competition</li><li>• High service charges</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>• Increase in the market share</li><li>• An increasing number of sales companies offers the systems</li><li>• Increase in online shopping and payments</li><li>• GPS and IP identification</li><li>• Improved marketing</li><li>• Integration of additional services</li></ul>	<ul style="list-style-type: none"><li>• Reliability of the NFC technology</li><li>• Increased competition</li><li>• Transferring money to third parties</li><li>• Vulnerable financial data</li><li>• Easily cracked passwords</li><li>• Digital certificates theft</li><li>• Collapse of the mobile network or the Internet connection</li><li>• Hanging technologies</li><li>• Tough competition in the sector</li><li>• Service continuity offered by the payment systems</li></ul>

*Figure 3. SWOT analysis of mobile and electronic payment systems*

In addition to the SWAT analysis, a **PESTEL analysis** for Bulgaria has been conducted for the purposes of the study. It has used data and the analyses from several strategic documents, namely the PEST Analysis of Bulgaria, prepared by BICA<sup>14</sup>, the Bulgarian National PESTLE and SWOT Analysis<sup>15</sup> and the Digital Content SWOT Analysis<sup>16</sup>, which have been reviewed in the context of electronic payments.

After studying the multitude of political, economic, social, technological, ecological and legal factors, which determine the macro environment in the country, we have determined the most important ones that influence electronic and mobile payments. These factors include the levels of corruption and bureaucracy, the demographic factors, the customer behaviours and attitudes towards the electronic payments, social mobility, the level of education, public image, the use of the Internet and e-commerce, new inventions, technologies and technological transfer, energy efficiency and legal regulations.

**The level of corruption** in Bulgaria is relatively high but the banking sector is not among the sectors with the highest corruption levels. The well-regulated legal framework and the possibility of eliminating the human factor to a certain extent make electronic and mobile payments invulnerable with respect to this.

**The level of bureaucracy** in the country is also high and the banking sector is characterised by having a rather cumbersome bureaucracy. However, the widespread use of mobile and electronic payments reduces considerably the red tape in the sector. The majority of the operations needed for carrying out a transaction are automated and do not depend on a particular person, bank branch, work place or counter.

With reference to the **demographic** factors, we can state that the population of Bulgaria is constantly decreasing. It is concentrated in the big cities and its average age is increasing – 20% of the citizens are over 65 years old<sup>17</sup>. We can conclude that in the medium and long run the trend is

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<sup>14</sup> BICA. PEST Analysis of Bulgaria. 2012.

<sup>15</sup> Basscom, Meys. Bulgarian national PESTLE and SWOT analysis. 2011.

<sup>16</sup> Zorc, S. Manfreda, A. Lampret, D. etc. Digital Content SWOT Analysis. 2012.

<sup>17</sup> <http://www.nsi.bg>

towards an aging population. This means that these people will be less willing to use the new information and communication technologies for purchasing products and services and will be reluctant to start using electronic payments. It is necessary to take measures for popularising the benefits of this service by offering methods which will meet the requirements of these potential users arising from their advanced age.

According to data from a survey conducted by Noema<sup>18</sup> about the **consumer behaviours and attitudes** towards the adoption of new technologies, it can be concluded that 57% of the Bulgarians are open to them. These are the active, satisfied and positive people as well as the rebels. This is a sound foundation for encouraging the more active use of innovative payment methods such as electronic and mobile payment systems.

**Social mobility** and **level of education** are among the factors, which influence the use of the new information and communication technologies. They are better accepted by people with a higher level of education. In the country, there is a huge gap between people with reference to their social status. Moving to a higher social group is difficult and depends on the level of education. This suggests that the majority of the people do not have access or experience difficulty with new information technologies in general and electronic and mobile payment systems in particular.

**Public image** is also one of the factors that influence the use of different forms of banking. Undoubtedly, using the electronic channels for accessing one's bank accounts enhances the public image. This factor is even more significant for the young people and the adolescents and it is not surprising that they are among the main users of these innovative services.

**Using the Internet and shopping online** are among the main factors, which directly affect the use of electronic and mobile payments and online payment systems. As of the end of 2015, 58% of all households in the country had broadband access to the Internet, which is one of the lowest percentages in the European Union. This low level of access to the Internet is also preserved with reference to accessing the Internet via

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<sup>18</sup> Pazaren Kompas. Bulgarite – nachin na zhivot. 28.11.2013.

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mobile devices. This is done by only under 25% of the households in Bulgaria while the average percentage in the EU is 43%. With reference to e-commerce, only 18.5% of the Bulgarians have bought products or services online. The purchases have involved mainly clothes or sports products. The share of financial services is very low – under 1% and this figure is far from the average percentages for the EU.

**The new inventions and technologies** also affect mobile and electronic payments – the increasing popularity of mobile devices is one of the prerequisites for increasing their number.

Electronic money transactions reduce the use of paper and the exchange of hard copies, which has a positive effect on **the environment**.

In our country, there is **good legislation** that provides the necessary level of regulation and protection when transactions and payments are made electronically while mobile and electronic payments are secured by the payment systems via which they are performed.

The SWOT analysis of electronic and mobile payment systems has found a number of problems arising from the manner in which they are used. Based on these findings, the study offers **measures for overcoming these weaknesses**.

**Concerns about security** are inevitable when this service is used. On one hand, what is offered does not actually have a physical medium. On the other hand, the environment in which the payments are made is also virtual. In addition, mobile and electronic payments refer to a very sensitive topic such as the clients' finances. Therefore, the two parties involved in a transaction must ensure its security. In particular, clients could:

- Install antivirus, antispyware and ad blocker software as well as a firewall on each device, which is connected to the Internet;
- Use long and complicated passwords, change them often and if possible buy an electronic signature;
- Store their data in a cloud, which can guarantee them the possibility of deleting or changing their account in case the device is stolen;
- Do not save automatically their personal user data on the mobile device;

- Be sceptical about e-mails urging them to change their usernames/passwords or forwarding them to the website of their servicing institution via a link, which has not been traditionally used until now;
- Keep their devices safe from physical theft.

By taking these measures, users can also protect themselves in case their **devices, accounts or digital certificates are stolen**.

The problem with the **high service charges** can be overcome by increasing the competition in the sector. The small “players”, who do not have other competitive advantages and are not popular among a vast number of buyers, can obtain an advantage by lowering the service charges. The market leaders, on the other hand, can lower these charges because in this way they can achieve economies of scale.

One of the main challenges to the operators of electronic and mobile payments is to guarantee **the continuity of the service**. This can be achieved by:

- Storing their data in a data centre;
- providing independent power supply for the web servers used by the systems;
- providing continuous connectivity and communication via the Internet by using the services of more than one provider as well as own Intranet connectivity;
- having a team, who will support the system 24 hours non-stop.

The PESTLE analysis has revealed some weaknesses of the political, economic, social and technological environment in Bulgaria, which can also be overcome by taking a multitude of measures.

The country must deal with the increasing level of **corruption and bureaucracy** in each sphere of public life. The widespread application of electronic and mobile payments is one of the methods for reducing the influence of the human factor, which leads to lowering the levels of corruption and bureaucracy.

According to the analysis of **social factors**, the new technologies are well accepted by Bulgarians in general. They would like to use the cashless payments more often not only for buying products or services but

also for making payments to the government institutions. However, a significant part of the population does not have confidence in the new payment instruments. This is due to the advanced age of the majority of the sceptics, on one hand, and the insecurity people feel about the technology facilitating these payments, on the other hand. Acquiring a higher level of education makes people “more open” and adaptive to the changes in their environment and the continuously developing information and communication technologies, in particular. It is necessary to strengthen personal motivation for education and lifelong learning through programmes and courses aimed at mastering different competences, including digital ones.

**The technological factors** are the most important regarding online payments. The level of Internet penetration and e-commerce and electronic financial services use is alarmingly low when compared to the other countries in the European Union. To improve the access to the Internet, the government implemented the national programme “Digital Bulgaria 2015”, which reflects the new role of the Internet as an important infrastructure and a vital environment for the development of the country’s economy and public life.

### Conclusion

The need for mobile and electronic payments is determined by the constantly increasing share of online sales of products and services compared to the share of sales realised in traditional shops. Internationally, the number of cashless payments is also increasing continuously and this trend is most marked with reference to electronic and mobile payments.

Bulgaria follows the global trends in diffusion of the electronic and mobile payment systems at a slower pace, however.

The SWAT and PESTEL analyses can determine the strengths, weaknesses, opportunities and threats of electronic payment use and show Bulgaria’s place on the political, social and economic map of the European Union. The identified weaknesses related to the technology of electronic payments and their use in Bulgaria can be overcome by following a number



of recommended solutions. The problems can be solved at a national, institutional and customer level. The attention should be focused on limiting the risks and threats concerning the security of the electronic payments and taking measures for increasing the popularity of this type of transactions.

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